

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

CENTRUE FINANCIAL CORP  
Form 10-Q  
May 14, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT  
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007  
COMMISSION FILE NUMBER: 0-28846

CENTRUE FINANCIAL CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware 36-3145350  
(State or other jurisdiction of (I.R.S. Employer Identification  
incorporation or organization) Number)

122 West Madison Street, Ottawa, Illinois 61350  
(Address of principal executive offices including zip code)

(815) 431-2720  
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.  
Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b of the Exchange Act). Yes ☐ No ☒.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares outstanding at May 14, 2007
Common Stock, Par Value \$1.00	6,422,488

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## CENTRUE FINANCIAL CORPORATION

### PART I FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

##### UNAUDITED CONSOLIDATED BALANCE SHEETS

March 31, 2007 and December 31, 2006 (In Thousands, Except Share Data)

-----

	March 31, 2007	December 31, 2006
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 48,910	\$ 40,195
Securities available-for-sale	289,288	298,692
Loans	868,529	836,944
Allowance for loan losses	(10,607)	(10,835)
	-----	-----
Net loans	857,922	826,109

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Cash value of life insurance	26,145	25,904
Mortgage servicing rights	3,402	3,510
Premises and equipment, net	35,375	35,403
Goodwill	25,396	25,396
Intangible assets, net	12,112	12,733
Other real estate	4,262	2,136
Other assets	16,009	12,947
	-----	-----
Total assets	\$ 1,318,821	\$ 1,283,025
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest-bearing	\$ 120,578	\$ 125,585
Interest-bearing	936,719	901,025
	-----	-----
Total deposits	1,057,297	1,026,610
Federal funds purchased and securities sold under agreements to repurchase	41,468	36,319
Federal Home Loan Bank advances	57,738	63,147
Notes payable	8,760	9,015
Series B mandatory redeemable preferred stock	831	831
Subordinated debentures	20,620	20,620
Other liabilities	12,440	8,292
	-----	-----
Total liabilities	1,199,154	1,164,834
	-----	-----
Stockholders' equity		
Preferred stock; 200,000 shares authorized; none issued	-	-
Series A convertible preferred stock; 2,765 shares authorized, 2,762 Shares outstanding (aggregate liquidation preference of \$2,762)	500	500
Common stock, \$1 par value; 15,000,000 shares authorized; 7,430,110 shares issued at March 31, 2007 and 7,412,210 shares issued at December 31, 2006	7,430	7,412
Surplus	70,713	70,460
Retained earnings	53,543	52,469
Accumulated other comprehensive income	408	235
	-----	-----
	132,594	131,076
Treasury stock, at cost; 959,270 shares at March 31, 2007 and 957,142 at December 31, 2006	(12,927)	(12,885)
	-----	-----
Total stockholders' equity	119,667	118,191
	-----	-----
Total liabilities and stockholders' equity	\$ 1,318,821	\$ 1,283,025
	=====	=====

See Accompanying Notes to Unaudited Financial Statements

1.

CENTRUE FINANCIAL CORPORATION  
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
Three Months Ended March 31, 2007 and 2006 (In Thousands, Except Per Share Data)

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	Three Months Ended March 31,	
	2007	2006
Interest income		
Loans	\$ 16,046	\$ 7,155
Securities		
Taxable	3,290	1,995
Exempt from federal income taxes	382	216
Federal funds sold and other	95	17
	-----	-----
Total interest income	19,813	9,383
Interest expense		
Deposits	8,817	3,479
Federal funds purchased and securities sold under agreements to repurchase	410	72
Federal Home Loan Bank advances	645	482
Series B mandatory redeemable preferred stock	12	12
Subordinated debentures	448	-
Notes payable and other	158	153
	-----	-----
Total interest expense	10,490	4,198
	-----	-----
Net interest income	9,323	5,185
Provision for loan losses	-	(800)
	-----	-----
Net interest income after provision for loan losses	9,323	5,985
Noninterest income		
Service charges	1,583	440
Trust income	229	219
Mortgage banking income	434	246
Brokerage commissions and fees	126	84
Bank owned life insurance (BOLI)	241	140
Other income	641	336
	-----	-----
	3,254	1,465
Noninterest expense		
Salaries and employee benefits	5,148	3,046
Occupancy, net	941	539
Furniture and equipment	695	379
Marketing	192	110
Supplies and printing	181	95
Telephone	178	117
Other real estate owned	3	6
Amortization of intangible assets	621	29
Other expenses	1,989	672
	-----	-----
	9,948	4,993
	-----	-----
Income from continuing operations before income taxes	2,629	2,457
Income taxes	730	783
	-----	-----
Income from continuing operations after income taxes	1,899	1,674

See Accompanying Notes to Unaudited Financial Statements

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CENTRUE FINANCIAL CORPORATION  
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
 Three Months Ended March 31, 2007 and 2006 (In Thousands, Except Per Share Data)

	Three Months Ended March 31,	
	2007	2006
DISCONTINUED OPERATIONS:		
Loss from operations of discontinued insurance unit	\$ -	\$ (48)
Income tax benefit	-	(20)
Loss on discontinued operations	-	(28)
Net income	\$ 1,899	\$ 1,646
Preferred stock dividends	52	52
Net income for common stockholders	\$ 1,847	\$ 1,594
Basic earnings per share from continuing operations	\$ 0.29	\$ 0.43
Basic earnings per share from discontinued operations	\$ -	\$ (0.01)
Basic earnings per common share	\$ 0.29	\$ 0.42
Diluted earnings per share from continuing operations	\$ 0.28	\$ 0.43
Diluted earnings per share from discontinued operations	\$ -	\$ (0.01)
Diluted earnings per common share	\$ 0.28	\$ 0.42
TOTAL COMPREHENSIVE INCOME:		
Net income	\$ 1,899	\$ 1,646
Change in unrealized gains (losses) on available for sale securities	173	(356)
Other comprehensive income	\$ 2,072	\$ 1,290

See Accompanying Notes to Unaudited Financial Statements

3.

CENTRUE FINANCIAL CORPORATION  
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 Three Months Ended March 31, 2007 and 2006 (In Thousands)

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	Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities		
Net income	\$ 1,899	\$ 1,646
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	845	464
Amortization of intangible assets	621	44
Amortization of mortgage servicing rights	108	79
Amortization of bond premiums, net	55	132
Stock Option Expense	6	35
Federal Home Loan Bank stock dividend	(29)	(46)
Provision for loan losses	-	(800)
Tax benefit related to exercised options	103	42
Net change in BOLI	(241)	(140)
Net change in OREO	(117)	(380)
Gain (loss) on sale of loans	(291)	(154)
(Gain)/loss on sale of real estate acquired in settlement of loans	(82)	1
Proceeds from sales of loans held for sale	10,248	11,158
Origination of loans held for sale	(10,699)	(11,352)
Change in assets and liabilities		
Decrease (increase) in other assets	(3,127)	746
Increase (decrease) in other liabilities	3,839	(240)
Net cash provided by operating activities	3,138	1,235
Cash flows from investing activities		
Securities available-for-sale		
Proceeds from maturities and paydowns	13,461	9,687
Purchases	(3,638)	(15,103)
Net (increase) / decrease in loans	(33,197)	11,202
Purchase of premises and equipment	(817)	(265)
Sale of branch	-	(6,054)
Proceeds from sale of real estate acquired in settlement of loans	199	46
Net cash provided by (used in) investing activities	(23,992)	(487)
Cash flows from financing activities		
Net increase (decrease) in deposits	30,687	(6,905)
Net increase in federal funds purchased and securities sold under agreements to repurchase	5,149	903
Payments on notes payable	(255)	(22)
Proceeds from notes payable	-	1,400
Net increase (decrease) in advances from the Federal Home Loan Bank	(5,409)	(2,700)
Dividends on common stock	(775)	(449)
Dividends on preferred stock	(52)	(52)
Proceeds from exercise of stock options	266	108
Purchase of treasury stock	(42)	(1,638)
Net cash provided by / (used in) financing activities	29,569	(9,355)
Net increase (decrease) in cash and cash equivalents	8,715	(8,607)
Cash and cash equivalents		
Beginning of period	40,195	24,358
End of period	\$ 48,910	\$ 15,751

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## Supplemental disclosures of cash flow information

	=====	=====
Cash payments for		
Interest	\$ 9,947	\$ 4,575
Income taxes	-	-
Transfers from loans to other real estate owned	2,242	380

See Accompanying Notes to Unaudited Financial Statements

4.

## CENTRUE FINANCIAL CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (In Thousands, Except Per Share Data)

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Centrue Financial Corporation (the "Company") is a bank holding company for Centrue Bank. During the 4th quarter of 2006, the former UnionBancorp completed its merger with Centrue Financial Corporation. Upon completion of this, UnionBancorp changed its name to Centrue Financial Corporation. The accompanying unaudited interim consolidated financial statements of Centrue Financial Corporation (the "Company") have been prepared in accordance with U.S. generally accepted accounting principles and with the rules and regulations of the Securities and Exchange Commission for interim financial reporting. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all normal and recurring adjustments which are necessary to fairly present the results for the interim periods presented have been included. The preparation of financial statements requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

For further information with respect to significant accounting policies followed by the Company in the preparation of its consolidated financial statements, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The annualized results of operations during the three months ended March 31, 2007 are not necessarily indicative of the results expected for the year ending December 31, 2007. All financial information is in thousands (000's), except shares and per share data. The consolidated financial statements reflect the results of the Company's insurance unit of the Wealth Management segment as a discontinued operation as described in Note 8.

### NOTE 2. EARNINGS PER SHARE

Basic earnings per share for the three months ended March 31, 2007 and 2006 were computed by dividing net income by the weighted average number of shares outstanding. Diluted earnings per share for the three months ended March 31, 2007 and 2006 were computed by dividing net income by the weighted average number of shares outstanding, adjusted for the dilutive effect of the stock options. Computations for basic and diluted earnings per share are provided below:

### BASIC EARNINGS PER COMMON SHARE

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	Three Months Ended March 31,	
	2007	2006
Net income from continuing operations available to common shareholders	\$ 1,847	\$ 1,622
Net loss from discontinued operations available to common shareholders	\$ -	\$ (28)
Net income available to common shareholders	\$ 1,847	\$ 1,594
Weighted average common shares outstanding	6,462,000	3,787,000
Basic earnings per common share from continuing operations	\$ 0.29	\$ 0.43
Basic earnings per common share from discontinued operations	\$ -	\$ (0.01)
Basic earnings per common share	\$ 0.29	\$ 0.42

5.

CENTRUE FINANCIAL CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Per Share Data)

NOTE 2. EARNINGS PER SHARE (continued)

DILUTED EARNINGS PER COMMON SHARE

	Three Months Ended March 31,	
	2007	2006
Weighted average common shares outstanding	6,462,000	3,787,000
Add: dilutive effect of assumed exercised stock options	35,000	51,000
Weighted average common and dilutive potential shares outstanding	6,497,000	3,838,000
Diluted earnings per common share from continuing operations	\$ 0.28	\$ 0.43
Diluted earnings per common share from discontinued operations	\$ -	\$ (0.01)
Diluted earnings per common share	\$ 0.28	\$ 0.42

There were approximately 276,200 and 60,000 options outstanding at March 31, 2007 and 2006, respectively that were not included in the computation of diluted earnings per share. These options were antidilutive since the exercise prices were greater than the average market price of the common stock.



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## NOTE 3. SECURITIES

The Company's consolidated securities portfolio, which represented 25.9% of the Company's 2007 first quarter average earning asset base, is managed to minimize interest rate risk, maintain sufficient liquidity, and maximize return. All of the Company's securities are classified as available-for-sale and are carried at fair value. The Company does not have any securities classified as trading or held-to-maturity.

The following table describes the fair value, gross unrealized gains and losses of securities available-for-sale at March 31, 2007 and December 31, 2006, respectively:

	March 31, 2007		
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
U.S. government agencies	\$ 123,375	\$ 396	\$ (181)
States and political subdivisions	41,987	316	(57)
U.S. government mortgage-backed securities	63,856	228	(282)
Collateralized mortgage obligations	26,768	73	(17)
Equity securities	27,544	151	-
Corporate	5,758	12	(9)
	<u>\$ 289,288</u>	<u>\$ 1,176</u>	<u>\$ (546)</u>

6.

## CENTRUE FINANCIAL CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (In Thousands, Except Per Share Data)

## NOTE 3. SECURITIES (continued)

	December 31, 2006		
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
U.S. government agencies	\$ 126,039	\$ 308	\$ (245)
States and political subdivisions	41,471	329	(9)
U.S. government mortgage-backed securities	69,579	253	(393)
Collateralized mortgage obligations	27,237	44	(77)
Equity securities	25,602	171	-
Corporate	8,764	16	(13)
	<u>\$ 298,692</u>	<u>\$ 1,121</u>	<u>\$ (737)</u>

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Management does not believe any individual unrealized losses as of March 31, 2007, identified in the preceding tables represent other-than-temporary impairment. These unrealized losses are primarily attributable to changes in the interest rates. The Company has both the intent and ability to hold each of the securities shown in the table for the time necessary to recover its amortized cost. The unrealized loss on the available for sale securities is included, net of tax, in other comprehensive income.

There were no security sales during the quarters ended March 31, 2007 and 2006.

## NOTE 4. LOANS

The following table describes the composition of loans by major categories outstanding as of March 31, 2007 and December 31, 2006, respectively:

	March 31, 2007		December
	\$	%	\$
Commercial	\$ 158,385	18.24%	\$ 154,829
Agricultural	20,204	2.33	23,118
Real estate:			
Commercial mortgages	306,065	35.24	274,909
Construction	129,041	14.86	116,608
Agricultural	26,591	3.06	27,624
1-4 family mortgages	217,259	25.01	226,884
Installment	10,027	1.15	11,998
Other	957	0.11	974
Total loans	868,529	100.00%	836,944
Allowance for loan losses	(10,607)		(10,835)
Loans, net	\$ 857,922		\$ 826,109

7.

## CENTRUE FINANCIAL CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (In Thousands, Except Per Share Data)

## NOTE 4. LOANS (continued)

The following table presents data on impaired loans:

	March 31, 2007	December 31, 2006
Impaired loans for which an allowance has been provided	\$ 7,816	\$ 4,915
Impaired loans for which no allowance has been provided	10,255	16,450

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Total loans determined to be impaired	\$ 18,071	\$ 21,365
	=====	=====
Allowance for loan loss for impaired loans included in the allowance for loan losses	\$ 1,639	\$ 1,562
	=====	=====

In originating loans, the Company recognizes that credit losses will be experienced and the risk of loss will vary with, among other things, current economic conditions; the type of loan being made; the creditworthiness of the borrower over the term of the loan; and in the case of a collateralized loan, the quality of the collateral for such loan. The allowance for loan losses represents the Company's estimate of the allowance necessary to provide for probable incurred losses in the loan portfolio. In making this determination, the Company analyzes the ultimate collectibility of the loans in its portfolio; incorporating feedback provided by internal loan staff; the independent loan review function; and information provided by regulatory agencies.

The Company conducts a quarterly evaluation as to the adequacy of the allowance for loan losses. Transactions in the allowance for loan losses for the three months ended March 31, 2007 and 2006 are summarized below:

	Three Months Ended March 31,	
	2007	2006
	-----	-----
Beginning balance	\$ 10,835	\$ 8,362
Charge-offs	(498)	(127)
Recoveries	270	71
Provision for loan losses	-	(800)
	-----	-----
Ending balance	\$ 10,607	\$ 7,506
	=====	=====
Period end total loans, net of unearned interest	\$ 868,529	\$ 406,617
	=====	=====
Average loans	\$ 856,962	\$ 414,237
	=====	=====

8.

CENTRUE FINANCIAL CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Per Share Data)

NOTE 4. LOAN (continued)

Three Months Ended March 31,	
2007	2006
-----	-----

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Ratio of net charge-offs to average loans	0.03%	0.01%
Ratio of provision for loan losses to average loans	0.00%	(0.19)
Ratio of allowance for loan losses to ending total loans	1.22%	1.85%
Ratio of allowance for loan losses to total nonperforming loans	112.65%	223.93%
Ratio of allowance at end of period to average loans	1.24%	1.81%

## NOTE 5. STOCK OPTION PLANS

In 1999, the Company adopted the 1999 Option Plan. Under the 1999 Option Plan, nonqualified options may be granted to employees and eligible directors of the Company and its subsidiaries to purchase the Company's common stock at 100% of the fair market value on the date the option is granted. The Company has authorized 50,000 shares for issuance under the 1999 Option Plan. During 1999, 40,750 of these shares were granted and are 100% fully vested. The options have an exercise period of ten years from the date of grant. There are 9,250 shares available for grant under this plan.

In April 2003, the Company adopted the 2003 Option Plan. Under the 2003 Option Plan, nonqualified options, incentive stock options, and/or stock appreciation rights may be granted to employees and outside directors of the Company and its subsidiaries to purchase the Company's common stock at an exercise price to be determined by the 2003 Option Plan's administrative committee. Pursuant to the 2003 Option Plan, 200,000 shares of the Company's unissued common stock have been reserved and are available for issuance upon the exercise of options and rights granted under the 2003 Option Plan. The options have an exercise period of ten years from the date of grant. There are 85,000 shares available for grant under this plan.

In addition to the Company plans described above, in conjunction with the merger, all outstanding options of the former Centrue Financial were converted into options to acquire Company common stock, as adjusted for the exchange ratio. Following the merger, no additional options are issuable under any of the former Centrue plans.

The fair value of each option award is estimated on the date of grant using a closed option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historic volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. (Employee and management options are tracked separately.) The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The fair value of options granted was determined using the following weighted-average assumptions as of the grant date:

	March 31, 2007	December 31, 2006
Fair value	\$ 4.69	\$ 4.81
Risk-free interest rate	4.80%	4.95%
Expected option life (years)	6	6
Expected stock price volatility	23.67%	23.45%
Dividend yield	2.68%	2.47%

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## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (In Thousands, Except Per Share Data)

### NOTE 5. STOCK OPTION PLANS (continued)

A summary of the status of the option plans as of March 31, 2007, and changes during the quarter ended on those dates is presented below:

	March 31, 2007			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Ag In
Outstanding at beginning of quarter	494,424	\$ 18.47		
Granted	13,000	19.03		
Exercised	(17,900)	12.12		
Forfeited	(1,500)	9.75		
Outstanding at end of quarter	488,024	\$ 18.73	4.9 years	\$
Options exercisable at quarter end	449,874	\$ 18.61	4.8 years	\$

Options outstanding at March 31, 2007 and December 31, 2006 were as follows:

	Outstanding		Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life	Number	We Av Ex P
MARCH 31, 2007:				
\$ 11.25 - 13.00	48,381	3.25 years	48,381	
13.88 - 18.50	150,443	3.81 years	157,293	
20.30 - 23.29	289,200	5.66 years	244,200	
	488,024	4.85 years	449,874	\$
DECEMBER 31, 2006:				
\$ 7.25 - \$ 9.75	7,000	0.2 years	7,000	\$
11.25 - 13.00	53,931	3.4 years	53,931	
13.88 - 18.50	157,293	4.1 years	157,293	
20.30 - 23.29	276,200	6.1 years	244,200	
	494,424	5.1 years	462,424	\$

10.

CENTRUE FINANCIAL CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Per Share Data)

NOTE 5. STOCK OPTION PLANS (continued)

Information related to the stock option plan during the quarter ended March 31, 2007 and March 31, 2006 is as follows:

	March 31, 2007	March 31, 2006
	-----	-----
Intrinsic value of options exercised	\$ 124	\$ 173
Cash received from option exercises	266	108
Tax benefit realized from option exercises	103	42
Weighted average of fair value of options granted	19.03	-

The Company recorded \$6 and \$34 in salaries and employee benefits stock compensation expense during the three months ended March 31, 2007 and 2006.

Unrecognized stock option compensation expense related to unvested awards (net of estimated forfeitures) for the remainder of 2007 and beyond is estimated as follows:

Period	Amount
-----	-----
April, 2007 - December, 2007	\$ 29
2008	35
2009	35
2010	35
2011	35
2012	25
2013	1
	-----
Total	\$ 195
	=====

NOTE 6. CONTINGENT LIABILITIES AND OTHER MATTERS

Neither the Company nor its subsidiary is involved in any pending legal proceedings other than routine legal proceedings occurring in the normal course of business, which, in the opinion of management, in the aggregate, are not material to the Company's consolidated financial condition.

NOTE 7. SEGMENT INFORMATION

The Company's reporting was enhanced so that a line of business (LOB) reporting structure was implemented as of January 1, 2005. The reportable segments are determined by the products and services offered, primarily distinguished between retail, commercial, treasury, wealth management, and operations & other. Loans, and deposits generate the revenues in the commercial segments; deposits, loans, secondary mortgage sales and servicing generates the revenue in the retail segment; investment income generates the revenue in the treasury segment; brokerage, and trust services generate the revenue in the wealth management segment (formerly known as the financial services segment); and holding company services and discontinued operations associated with the sale of the insurance

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unit generate revenue in the Other Operations segment. The "net allocations" line represents the allocation of the costs that are overhead being spread to the specific segments. With the sale of the insurance unit, the results for insurance were classified into the Other Operations segment from the Wealth Management segment.

11.

## CENTRUE FINANCIAL CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (In Thousands, Except Per Share Data)

### NOTE 7. SEGMENT INFORMATION (continued)

The merger with the former Centrue became effective on November 13, 2006, and as such, the results for the former Centrue Bank are presented as a stand alone segment ("Other Banking") since its operations were not yet integrated at the end of March 31, 2007. Comparable discrete financial information is not available for the results of this segment on the same reporting basis as the rest of the Company.

The accounting policies used with respect to segment reporting are the same as those described in the summary of significant accounting policies set forth in Note 1. Segment performance is evaluated using net income. Information reported internally for performance assessment follows.

	Three Months Ended, March 31, 2007				
	Retail Segment	Commercial Segment	Treasury Segment	Wealth Management	Other Operations
Net interest income (loss)	\$ 1,778	\$ 3,184	\$ 124	\$ 66	\$ (
Other revenue	884	104	-	384	
Other expense	1,412	610	63	401	2,
Noncash items					
Depreciation	216	3	-	5	
Provision for loan losses	-	-	-	-	
Other intangibles	-	-	-	1	
Net allocations	843	1,431	174	184	(2,
Income tax expense	60	406	(101)	(47)	
Segment profit (loss)	131	838	(12)	(94)	
Goodwill	2,521	2,622	-	1,166	
Segment assets	97,598	339,118	192,191	2,270	21,

	Three Months Ended, March 31, 2006				
	Retail Segment	Commercial Segment	Treasury Segment	Wealth Management	Other Operations
Net interest income (loss)	\$ 1,982	\$ 3,263	\$ 130	\$ 56	\$ (
Other revenue	850	111	1	633	

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Other expense	1,450	644	68	664	1,
Noncash items					
Depreciation	232	3	-	38	
Provision for loan losses	125	(925)	-	-	
Other intangibles	-	-	-	15	
Net allocations	847	1,213	160	233	(2,
Income tax expense	57	849	(106)	(87)	
Segment profit (loss)	121	1,590	9	(174)	
Goodwill	2,521	2,622	-	1,820	
Segment assets	97,648	327,122	213,003	3,792	20,

## NOTE 8. DISCONTINUED OPERATIONS

During the third quarter of 2006, the Company sold the insurance unit from the Wealth Management segment for \$1,200. In accordance with FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144") the results of operations of the insurance unit are reflected in the Company's statements of income for the three months ended March 31, 2006 as "discontinued operations." Approximately \$1,030 of goodwill and intangibles attributed to the insurance unit on the Company's balance sheet were written off as a result of this transaction and factored into the loss on the sale of the discontinued operations.

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## CENTRUE FINANCIAL CORPORATION

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Per Share Data)

## NOTE 8. DISCONTINUED OPERATIONS (continued)

	Three Months Ended March 31, 2006
Net interest income	\$ (2)
Noninterest income	295
Noninterest expense	341
Loss from discontinued operations before income taxes	(48)
Benefit for taxes	(20)
Net loss from discontinued operations	(28)

## NOTE 9. RECENT ACCOUNTING DEVELOPMENTS

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The Company has not completed its evaluation of the impact of the adoption of this standard.

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments-an amendment to FASB Statements No. 133 and 140". This Statement permits fair value re-measurement for any hybrid financial



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instruments, clarifies which instruments are subject to the requirements of Statement No. 133, and establishes a requirement to evaluate interests in securitized financial assets and other items. The new standard is effective for financial assets acquired or issued after the beginning of the entity's first fiscal year that begins after September 15, 2006. Adoption of this statement on January 1, 2007 did not have a material impact on the Company's consolidated financial position or results of operations.

In March 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140". This statement provides the following: 1) revised guidance on when a servicing asset and servicing liability should be recognized; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to elect to measure servicing assets and servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) upon initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities for securities which are identified as offsetting the entity's exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value; and 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional footnote disclosure. This standard is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006, with the effects of initial adoption being reported as a cumulative-effect adjustment to retained earnings. We will continue to carry the mortgage servicing asset at lower of cost or market, reviewing it quarterly for impairment.

In February, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting principles. It is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS 157. The Company has decided not to early adopt SFAS 159 and is currently evaluating the impact of the adoption with respect to its current practice of measuring fair value and disclosure of it in its financial statements.

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CENTRUE FINANCIAL CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Per Share Data)

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The Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB No. 109" ("FIN 48") as of January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to follow. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more than likely than not" test, no benefit is recorded. The adoption had no effect on the

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Company's financial statements.

The Company is subject to U. S. federal income tax as well as income tax for the states of Illinois and Missouri. The Company is no longer subject to examination by taxing authorities for years before 2002. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

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CENTRUE FINANCIAL CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

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Centrue Financial Corporation (the "Company") is a bank holding company for Centrue Bank. During the 4th quarter of 2006, the former UnionBancorp completed its merger with Centrue Financial Corporation. Upon completion of this, UnionBancorp changed its name to Centrue Financial Corporation. The following discussion provides an analysis of the Company's results of operations and financial condition for the three months ended March 31, 2007 as compared to the same period in 2006. Management's discussion and analysis (MD&A) should be read in conjunction with the consolidated financial statements and accompanying notes presented elsewhere in this report as well as the Company's 2006 Annual Report on Form 10-K. Annualized results of operations during the three months ended March 31, 2007 are not necessarily indicative of results to be expected for the full year of 2007. Unless otherwise stated, all earnings per share data included in this section and throughout the remainder of this discussion are presented on a diluted basis. All financial information is in thousands (000's), except shares and per share data.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, changes in these assumptions and estimates could significantly affect the Company's financial position or results of operations. Actual results could differ from those estimates. Those critical accounting policies that are of particular significance to the Company are discussed in Note 1 of the Company's 2006 Annual Report on Form 10-K.

**Allowance for Loan Losses:** The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required based on past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, current economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Loan losses are charged against the allowance when management believes that the uncollectibility of a loan balance is confirmed.

**Goodwill and other intangible assets:** Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified. Other intangible assets consist of

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core deposit and acquired customer relationship intangible assets arising from whole bank, and branch company acquisitions. They are initially measured at fair value and then are amortized over their estimated useful lives, which is ten years.

Income taxes: Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred taxes are recognized for the estimated taxes ultimately payable or recoverable based on enacted tax laws. Changes in enacted tax rates and laws are reflected in the financial statements in the periods they occur.

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### CENTRUE FINANCIAL CORPORATION

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

##### GENERAL

Centrue Financial Corporation is a bank holding company organized under the laws of the state of Delaware. The Company derives most of its revenues and income from the operations of its bank subsidiary, Centrue Bank (the "Bank"), but also derives revenue from the Wealth Management Division of its bank subsidiary. The Company provides a full range of services to individual and corporate customers located in the north central, east central, south central, suburban west area of Chicago, suburban metro east of St. Louis and northwest Illinois areas. These products and services include demand, time, and savings deposits; lending; mortgage banking; brokerage services; asset management; and trust services. The Company is subject to competition from other financial institutions, including banks, thrifts and credits unions, as well as nonfinancial institutions providing financial services. Additionally, the Company and the Bank are subject to regulations of certain regulatory agencies and undergo periodic examinations by those regulatory agencies.

##### FIRST QUARTER HIGHLIGHTS

- o Income from continuing operations for the first quarter of 2007 was \$1,899, an increase of 13.6% when compared to \$1,674 for the same period in 2006;
- o Net interest income increased 55.8% to \$9,323 in the first quarter ended March 31, 2007 as compared to \$5,985 for the same period in 2006. This increase is the result of the merger with the former Centrue Financial;
- o The loan portfolio increased \$31,585 or 3.8% since December 31, 2006 largely due to growth experienced in the St. Louis loan production office;
- o Deposits increased \$30,687 or 3.0% since December 31, 2006 largely due to growth in interest bearing deposit accounts;
- o The Company did not record a provision for loan losses due to higher than anticipated recoveries, loans that were charged off which had previously established specific allocations, and a decrease in action list loans since year-end;
- o The net interest margin decreased 17 basis points to 3.35% as compared to the same period in 2006 largely due to the inverted yield curve and competitive pressures in pricing loans and deposits;
- o Noninterest expense for the first quarter of 2007 was \$9,948. This was a \$746 or 7.0% decrease in comparison to the same period 2006 pro forma combined companies. In the first quarter of 2006, the former

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- UnionBancorp, Inc. reported \$5,334 (adjusted for discontinued operations) while the former Centrue Financial reported \$5,360 for a combined total of \$10,694;
- o The Company opened a full service branch in Belleville, Illinois expanding its geographic footprint in the St Louis Metro East market;
  - o The Company paid a \$0.12 quarterly cash dividend on common stock. This marks the 86th consecutive quarter of dividends paid to stockholders.

### RESULTS OF OPERATIONS

#### NET INCOME

Income from continuing operations for the first quarter 2007 equaled \$1,899 or \$0.28 per diluted share as compared to income from continuing operations of \$1,674 or \$0.43 per diluted share for 2006. This represents an increase of 13.6% in net income and a decrease of 34.9% in diluted per share earnings. First quarter 2006 results included a net loss of (\$28) or (\$0.01) per diluted share for discontinued operations related to the September 2006 sale of the Company's insurance unit.

First quarter 2006 results included a negative provision of \$800 to the allowance for loan losses. This action was largely based on the pay-off of one \$4,400 loan relationship that was classified as impaired as of 2005 with a specific reserve allocation of \$1,500. Excluding the reversal to the provision for loan losses, net of taxes, net income for the first quarter of 2006 would have equaled \$1,156 or \$0.29 per diluted share.

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#### CENTRUE FINANCIAL CORPORATION

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

Return on average assets was 0.59% for the first quarter of 2007 compared to 1.00% for the same period in 2006. Return on average stockholders' equity was 6.42% for the first quarter of 2007 compared to 10.16% for the same period in 2006.

#### NET INTEREST INCOME/ MARGIN

Fully tax equivalent net interest income increased 80.2% to \$9,574 for the first quarter 2007 compared with \$5,314 in 2006. The increase was largely attributable to the growth in average earning assets, including the impact of the Centrue merger, partially offset by a reduction in the net interest margin.

The Company's net interest margin declined 17 basis points to 3.35% in the first quarter 2007 as compared with 3.52% for the same period in 2006. During 2007, the net interest margin compressed as the cost of funds increased more than the earning asset yield. The primary drivers of the decrease were compressed loan spreads, heightened competition for deposits and fixed rate term loans that repriced at similar or lower rates during the last twelve months due to the flat to inverted yield curve. The expectation of a flat to inverted yield curve is likely to maintain pressure on margins for the remainder of 2007.

The Company's net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as "volume change." It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds referred to as "rate change." The following table details each

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category of average amounts outstanding for interest-earning assets and interest-bearing liabilities, average rate earned on all interest-earning assets, average rate paid on all interest-bearing liabilities, and the net yield on average interest-earning assets. In addition, the table reflects the changes in net interest income stemming from changes in interest rates and from asset and liability volume, including mix. The change in interest attributable to both rate and volume has been allocated to the changes in the rate and the volume on a pro rata basis.

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CENTRUE FINANCIAL CORPORATION

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

### AVERAGE BALANCE SHEET AND ANALYSIS OF NET INTEREST INCOME

	For the Three Months Ended March 31,					
	2007			2006		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
<b>ASSETS</b>						
Interest-earning assets						
Interest-earning deposits	\$ 3,554	\$ 13	1.48%	\$ 251	\$ 4	6.00%
Securities (1)						
Taxable	252,872	3,305	5.62	181,272	1,991	4.41
Non-taxable (2)	41,037	564	5.57	18,026	327	7.25
Total securities (tax equivalent)	293,909	3,869	5.34	199,298	2,318	4.63
Federal funds sold	6,103	82	5.45	1,560	17	4.36
Loans (3) (4)						
Commercial	182,131	3,721	8.29	118,069	2,061	7.13
Real estate	663,174	11,858	7.25	284,177	4,834	6.80
Installment and other	11,656	520	18.09	11,992	280	9.34
Gross loans (tax equivalent)	856,962	16,099	7.62	414,238	7,175	7.13
Total interest-earning assets	1,160,528	20,063	7.01	615,347	9,514	6.13
Noninterest-earning assets						
Cash and cash equivalents	26,676			18,521		
Premises and equipment, net	35,509			13,842		
Other assets	71,295			23,752		
Total noninterest-earning assets	133,481			56,115		
Total assets	\$ 1,294,008			\$ 671,462		

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	=====			=====		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities						
NOW accounts	\$ 102,601	\$ 420	1.66%	\$ 69,997	\$ 282	1.
Money market accounts	119,940	1,058	3.58	55,792	349	2.
Savings deposits	102,559	181	0.72	38,538	54	0.
Time deposits	587,319	7,157	4.94	308,207	2,794	3.
Federal funds purchased and repurchase agreements	36,372	410	4.57	6,010	72	4.
Advances from FHLB	61,226	645	4.27	49,340	482	3.
Notes payable	30,378	618	8.25	11,061	167	6.
	-----	-----	-----	-----	-----	-----
Total interest-bearing liabilities	1,040,395	10,489	4.09	538,945	4,200	3.
	-----	-----	-----	-----	-----	-----
Noninterest-bearing liabilities						
Noninterest-bearing deposits	125,507			61,730		
Other liabilities	9,700			4,966		
	-----			-----		
Total noninterest-bearing liabilities	135,207			66,696		
	-----			-----		
Stockholders' equity	118,406			65,821		
	-----			-----		
Total liabilities and stockholders' equity	\$ 1,294,008			\$ 671,462		
	=====			=====		
Net interest income (tax equivalent)		\$ 9,574			\$ 5,314	
		=====			=====	
Net interest income (tax equivalent) to total earning assets			3.35%			3.
			=====			=====
Interest-bearing liabilities to earning assets		89.65%			87.58%	
		=====			=====	

- 
- (1) Average balance and average rate on securities classified as available-for-sale is based on historical amortized cost balances.
  - (2) Interest income and average rate on non-taxable securities are reflected on a tax equivalent basis based upon a statutory federal income tax rate of 34%.
  - (3) Nonaccrual loans are included in the average balances.
  - (4) Overdraft loans are excluded in the average balances.

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CENTRUE FINANCIAL CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

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PROVISION FOR LOAN LOSSES

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The Company did not record a provision for loan losses for the first quarter of 2007. This represents an increase of \$800 as compared to the same period a year ago. First quarter 2006 results included a negative provision of \$800 to the allowance for loan losses. This action was largely based on the pay-off of one \$4,400 loan relationship that was classified as impaired as of 2005 with a specific reserve allocation of \$1,500. Also impacting provision levels included the following:

- o decrease in action list loans since year-end;
- o higher than anticipated recoveries;
- o loans that were charged off during the first quarter of 2007 had previously established specific allocations.

Nonperforming loans decreased 19.9% to \$9,416 as of March 31, 2007 from \$11,759 reported at December 31, 2006. Net charge-offs for the first quarter of 2007 were \$228 compared with \$56 for the comparable period in 2006. Annualized net charge-offs for the period were 0.03% of average loans compared with 0.01% of average loans for same period in 2006. See "Nonperforming Assets" and "Other Potential Problem Loans" for further information.

The amount of the provision for loan losses is based on management's evaluations of the loan portfolio, with particular attention directed toward nonperforming, impaired and other potential problem loans. During these evaluations, consideration is also given to such factors as management's evaluation of specific loans, the level and composition of impaired loans, other nonperforming loans, other identified potential problem loans, historical loss experience, results of examinations by regulatory agencies, results of the independent asset quality review process, the market value of collateral, the estimate of discounted cash flows, the strength and availability of guarantees, concentrations of credits, and various other factors, including concentration of credit risk in various industries and current economic conditions.

Management remains watchful of credit quality issues. Should the economic climate deteriorate from current levels, borrowers may experience difficulty, and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision.

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### CENTRUE FINANCIAL CORPORATION

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

#### ----- NONINTEREST INCOME

The following table summarizes the Company's noninterest income:

	Three Months Ended March 31,	
	2007	2006
Service charges	\$ 1,583	\$ 440
Wealth management fees	355	303
Mortgage banking income	434	246
Bank owned life insurance	241	140
Electronic bank card fees	231	95
Other income	410	241
	-----	-----

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Total noninterest income from continuing operations	\$ 3,254	\$ 1,465
Amounts reclassified to discontinued operations	-	295
	-----	-----
Previously reported noninterest income levels	\$ 3,254	\$ 1,760
	=====	=====

Noninterest income from continuing operations increased \$1,789 to \$3,254 as compared to \$1,465 for the same period in 2006. The growth experienced was primarily the result of improvements in service charges on deposit accounts, fees received on items drawn on customer accounts with insufficient funds, revenue generated from the mortgage banking division, and electronic banking card based fees (included in other income). Nearly all of the increase was related to revenue generated from deposit growth associated with the merger.

### NONINTEREST EXPENSE

The following table summarizes the Company's noninterest expense:

	Three Months Ended March 31,	
	2007	2006
	-----	-----
Salaries and employee benefits	\$ 5,148	\$ 3,046
Occupancy expense, net	941	539
Furniture and equipment expense	695	379
Marketing	192	110
Supplies and printing	181	95
Telephone	178	117
Other real estate owned expense	3	6
Amortization of intangible assets	621	29
Other expenses	1,989	672
	-----	-----
Total noninterest expense from continuing operations	\$ 9,948	\$ 4,993
Amounts reclassified to discontinued operations	-	342
	-----	-----
Previously reported noninterest expense levels	\$ 9,948	\$ 5,335
	=====	=====

Noninterest expense for continuing operations increased \$4,955 to \$9,948 as compared to \$4,993 for the same period in 2006. The increase was reported across all categories and predominantly due to higher costs associated with operating 21 additional branches and general operating expenses resulting from the merger. Also adversely impacting expense levels were increases in amortization of intangible assets related to the Centrue merger which occurred in November of 2006 and accelerated depreciation expense for assets being phased out.

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### CENTRUE FINANCIAL CORPORATION

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

### APPLICABLE INCOME TAXES

Income tax expense for the periods included benefits for tax-exempt income, tax-advantaged investments and general business tax credits offset by the effect of nondeductible expenses. The following table shows the Company's income before income taxes, as well as applicable income taxes and the effective tax rate for



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the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31,	
	2007	2006
Income from continuing operations before income taxes	\$ 2,629	\$ 2,457
Applicable income taxes	730	783
Effective tax rates	27.8%	31.9%

The Company recorded an income tax expense of \$730 and \$783 for the three months ended March 31, 2007 and 2006, respectively. Income tax expense for the periods included benefits for tax-exempt income, tax-advantaged investments and general business tax credits offset by the effect of nondeductible expenses. The Company's effective tax rate was lower than statutory rates due to the Company deriving interest income from municipal securities and loans, which are exempt from federal tax and certain U. S. government agency securities, which are exempt from Illinois State tax. Additionally, the Company has reduced tax expense through various tax planning initiatives.

### FINANCIAL CONDITION

#### GENERAL

As of March 31, 2007, the following are the highlights of the balance sheet when compared to December 31, 2006:

- o gross loans grew \$31,585 or 3.8% due predominantly to growth experienced in the St. Louis loan production office;
- o deposits grew 3.0% to \$1,057,297 from \$1,026,610 largely concentrated in time deposits;
- o the average loan to deposit ratio increased to 82.6% as of March 31, 2007 from 78.8% at December 31, 2006. This is the highest it has been in sixteen quarters;
- o non-interest bearing deposits fell to 11.4% of total deposits at the end of first quarter from 12.2% at December 31, 2006.

#### NONPERFORMING ASSETS

If a loan is placed on nonaccrual status, the loan does not generate income for the Company. Loans are placed on nonaccrual status when there are serious doubts regarding the collectibility of all principal and interest due under the terms of the loans. Amounts received on nonaccrual loans generally are applied first to principal and then to interest after all principal has been collected. A loan is generally transferred to nonaccrual status if it is not in the process of collection and is delinquent in payment of either principal or interest beyond 90 days. Loans that are 90 days delinquent but are well secured and in the process of collection are not included in nonperforming assets. Other nonperforming assets consist of real estate acquired through loan foreclosures or other workout situations and other assets acquired through repossessions.

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CENTRUE FINANCIAL CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

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The classification of a loan as nonaccrual does not necessarily indicate that

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the principal is uncollectible, in whole or in part. The Bank makes a determination as to collectibility on a case-by-case basis. The Bank considers both the adequacy of the collateral and the other resources of the borrower in determining the steps to be taken to collect nonaccrual loans. The final determination as to the steps taken is made based upon the specific facts of each situation. Alternatives that are typically considered to collect nonaccrual loans are foreclosure, collection under guarantees, loan restructuring, or judicial collection actions.

Each of the Company's loans is assigned a rating based upon an internally developed grading system. A separate credit administration department also reviews grade assignments on an ongoing basis. Management continuously monitors nonperforming, impaired, and past due loans to prevent further deterioration of these loans. The Company has an independent loan review function which is separate from the lending function and is responsible for the review of new and existing loans.

The following table summarizes nonperforming assets and loans past due 90 days or more and still accruing for the previous five quarters.

	2007	2006		
	Mar 31,	Dec 31,	Sept 30,	Jun
Non-accrual loans	\$ 9,416	\$ 11,759	\$ 3,053	\$ 2,
Loans 90 days past due and still accruing interest	-	-	168	
Total nonperforming loans	9,416	11,759	3,221	2,
Other real estate owned	4,262	2,136	859	1,
Total nonperforming assets	\$ 13,678	\$ 13,895	\$ 4,080	\$ 4,
Nonperforming loans to total end of period loans	1.08%	1.40%	0.79%	0
Nonperforming assets to total end of period loans	1.57	1.66	1.00	1
Nonperforming assets to total end of period assets	1.04	1.08	0.63	0

The level of nonperforming loans at March 31, 2006 decreased to \$9,416 versus the \$11,759 that existed as of December 31, 2006. The decrease was largely related to the transfer of one nonperforming commercial real estate loan with a carrying value of \$1,995 to other real estate owned. The \$8,538 increase in nonperforming loans from September 30, 2006 to December 31, 2006 was largely related to \$10,230 that was added to nonaccrual loans as part of the Centruue merger offset by a decrease of \$1,692 related to resolutions of nonbankable loans or through successful workout strategies executed throughout 2006.

The level of nonperforming loans to total end of period loans was 1.08% at March 31, 2007, as compared to 1.40% at December 31, 2006. The reserve coverage ratio (allowance to nonperforming loans) was reported at 112.65% as of March 31, 2007 as compared to 92.14% as of December 31, 2006 and 223.93% as of March 31, 2006.

### OTHER POTENTIAL PROBLEM LOANS

The Company has other potential problem loans that are currently performing, but where some concerns exist as to the ability of the borrower to comply with present loan repayment terms. Excluding nonperforming loans and loans that management has classified as impaired, these other potential problem loans totaled \$2,202 at March 31, 2007 as compared to \$858 at March 31, 2006 and

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\$1,757 at December 31, 2006. The classification of these loans, however, does not imply that management expects losses on each of these loans, but believes that a higher level of scrutiny and close monitoring is prudent under the circumstances. Such classifications relate to specific concerns for each individual borrower and do not relate to any concentration risk common to all loans in this group.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

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### ALLOWANCE FOR LOAN LOSSES

At March 31, 2007, the allowance for loan losses was \$10,607 or 1.22% of total loans as compared to \$10,835 or 1.29% at December 31, 2006. In originating loans, the Company recognizes that credit losses will be experienced and the risk of loss will vary with, among other things, the following:

- o general economic conditions;
- o the type of loan being made;
- o the creditworthiness of the borrower over the term of the loan;
- o in the case of a collateralized loan, the quality of the collateral for such a loan.

The allowance for loan losses represents the Company's estimate of the allowance necessary to provide for probable incurred losses in the loan portfolio by analyzing the following:

- o ultimate collectibility of the loans in its portfolio;
- o incorporating feedback provided by internal loan staff;
- o the independent loan review function;
- o results of examinations performed by regulatory agencies.

The Company regularly evaluates the adequacy of the allowance for loan losses. Commercial credits are graded using a system that is in compliance with regulatory classifications by the loan officers and the loan review function validates the officers' grades. In the event that the loan review function downgrades the loan, it is included in the allowance analysis at the lower grade. To establish the appropriate level of the allowance, a sample of loans (including impaired and nonperforming loans) are reviewed and classified as to potential loss exposure.

Based on an estimation computed pursuant to the requirements of Financial Accounting Standards Board ("FASB") Statement No. 5, "Accounting for Contingencies," and FASB Statements Nos. 114 and 118, "Accounting by Creditors for Impairment of a Loan," the analysis of the allowance for loan losses consists of three components:

- o specific credit allocation established for expected losses resulting from analysis developed through specific credit allocations on individual loans for which the recorded investment in the loan exceeds its fair value;
- o general portfolio allocation based on historical loan loss experience for each loan category;
- o subjective reserves based on general economic conditions as well as specific economic factors in the markets in which the Company operates.

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The specific credit allocation component of the allowance for loan losses is based on a regular analysis of loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The fair value of the loan is determined based on either the present value of expected future cash flows discounted at the loan's effective interest rate, the market price of the loan, or, if the loan is collateral dependent, the fair value of the underlying collateral less cost of sale.

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(In Thousands, Except Per Share Data)

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The general portfolio allocation component of the allowance for loan losses is determined statistically using a loss migration analysis that examines historical loan loss experience. The loss migration analysis is performed quarterly and loss factors are updated regularly based on actual experience. The general portfolio allocation element of the allowance for loan losses also includes consideration of the amounts necessary for concentrations and changes in portfolio mix and volume.

The allowance for loan losses is based on estimates, and ultimate losses will vary from current estimates. These estimates are reviewed monthly, and as adjustments, either positive or negative, become necessary, a corresponding increase or decrease is made in the provision for loan losses. The composition of the loan portfolio has not significantly changed since year-end 2004. The methodology used to determine the adequacy of the allowance for loan losses is consistent with prior years, and there were no reallocations.

Management remains watchful of credit quality issues. Should the economic climate deteriorate from current levels, borrowers may experience difficulty, and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision.

### LIQUIDITY

The Company manages its liquidity position with the objective of maintaining sufficient funds to respond to the needs of depositors and borrowers and to take advantage of earnings enhancement opportunities. In addition to the normal inflow of funds from core-deposit growth together with repayments and maturities of loans and investments, the Company utilizes other short-term funding sources such as brokered time deposits, securities sold under agreements to repurchase, overnight federal funds purchased from correspondent banks and the acceptance of short-term deposits from public entities, and Federal Home Loan Bank advances.

The Company monitors and manages its liquidity position on several bases, which vary depending upon the time period. As the time period is expanded, other data is factored in, including estimated loan funding requirements, estimated loan payoffs, investment portfolio maturities or calls, and anticipated depository buildups or runoffs.

The Company classifies all of its securities as available-for-sale, thereby maintaining significant liquidity. The Company's liquidity position is further enhanced by structuring its loan portfolio interest payments as monthly and by the significant representation of retail credit and residential mortgage loans in the Company's loan portfolio, resulting in a steady stream of loan repayments. In managing its investment portfolio, the Company provides for staggered maturities so that cash flows are provided as such investments mature.

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The Company's cash flows are comprised of three classifications: cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities. Cash flows provided by operating activities and financing activities offset by those used in investing activities, resulted in a net increase in cash and cash equivalents of \$8,715 from December 31, 2006 to March 31, 2007.

During the first three months of 2007, the Company experienced net cash inflows of \$29,569 in financing activities primarily due to an increase in deposits and \$3,138 was provided by operating activities due to primarily the net income for the period. In contrast, net cash outflows of \$23,992 were used in investing activities due to the growth in loans.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

### CONTRACTUAL OBLIGATIONS, COMMITMENTS, CONTINGENCIES, AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Company has entered into contractual obligations and commitments and off-balance sheet financial instruments. The following tables summarize the Company's contractual cash obligations and other commitments and off balance sheet instruments as of March 31, 2007.

	Payments Due by Period			
	Within 1 Year	1-3 Years	4-5 Years	After 5 Years
CONTRACTUAL OBLIGATIONS				
Short-term debt	\$ 7,615	\$ -	\$ -	\$ -
Long-term debt	-	129	-	1,016
Certificates of Deposit	450,814	142,173	7,752	1,904
Operating leases	322	891	949	480
Severance payments	130	-	-	-
Series B Mandatory redeemable Preferred stock	-	831	-	-
Subordinated debentures	-	-	-	20,620
FHLB Advances	26,374	18,300	8,000	5,064
Total contractual cash obligations	\$ 485,255	\$ 161,433	\$ 15,752	\$ 28,604

Amount of Commitment Expiration per Period			
Within 1 Year	1-3 Years	4-5 Years	After 5 Years

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### OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

Lines of credit	\$ 142,922	\$ 54,933	\$ 6,394	\$ 16,842
Standby letters of credit	5,937	9,025	-	-
	-----	-----	-----	-----
Total commercial commitments	\$ 148,859	\$ 63,958	\$ 6,394	\$ 16,842
	=====	=====	=====	=====

### CAPITAL RESOURCES

#### STOCKHOLDERS' EQUITY

The Company is committed to managing capital for maximum shareholder benefit and maintaining strong protection for depositors and creditors. Stockholders' equity at March 31, 2007 was \$119,667, an increase of \$1,476 or 1.25%, from December 31, 2006. The increase in stockholders' equity was largely the result of net income for the period and an increase in accumulated other comprehensive income. Average quarterly equity as a percentage of average quarterly assets was 9.15% at March 31, 2007, compared to 10.35% at December 31, 2006. Book value per common share equaled \$18.42 at March 31, 2007 compared to \$18.23 at December 31, 2006.

#### STOCK REPURCHASE

On November 13, 2006, the Board of Directors approved a stock repurchase plan whereby the Company may repurchase from time to time up to 5% or 370,000 of its outstanding shares of common stock in the open market or in private transactions over an 18 month period. Purchases are dependent upon market conditions and the availability of shares. The repurchase program enables the Company to optimize its use of capital relative to other investment alternatives and benefits both the Company and the shareholders by enhancing earnings per share and return on equity. During the first quarter of 2007, 2,128 shares were repurchased at a weighted cost of \$19.60.

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### CENTRUE FINANCIAL CORPORATION

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

#### CAPITAL MEASUREMENTS

The Bank is expected to meet a minimum risk-based capital to risk-weighted assets ratio of 8%, of which at least one-half (or 4%) must be in the form of Tier 1 (core) capital. The remaining one-half (or 4%) may be in the form of Tier 1 (core) or Tier 2 (supplementary) capital. The amount of loan loss allowance that may be included in capital is limited to 1.25% of risk-weighted assets. The ratio of Tier 1 (core) and the combined amount of Tier 1 (core) and Tier 2 (supplementary) capital to risk-weighted assets for the Company was 10.6% and 11.7%, respectively, at March 31, 2007. The Company is currently, and expects to continue to be, in compliance with these guidelines.

The following table sets forth an analysis of the Company's capital ratios:

March 31, 2007	December 31, ----- 2006	2005	Minimum Capital Ratios
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Tier 1 risk-based capital	\$ 102,412	\$ 99,869	\$ 60,546	
Tier 2 risk-based capital	10,607	10,834	6,266	
	-----	-----	-----	
Total capital	113,019	110,703	66,812	
Risk-weighted assets	968,981	927,043	501,342	
Capital ratios				
Tier 1 risk-based capital	10.6%	10.8%	12.1%	4.00%
Tier 2 risk-based capital	11.7	11.9	13.3	8.00
Leverage ratio	8.0	7.9	9.0	4.00

## RECENT REGULATORY AND ACCOUNTING DEVELOPMENTS

See Note 9 for further discussion on this.

## SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934 as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations of the Company, are generally identified by the use of words such as "believe," "expect," "intend," "anticipate," "estimate," "project," "planned" or "potential" or similar expressions.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby identifying important factors that could effect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any forward-looking statements.

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## CENTRUE FINANCIAL CORPORATION

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

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Among the factors that could have an impact on the Company's ability to achieve operating results and the growth plan goals are as follows:

- o management's ability to reduce and effectively manage interest rate risk and the impact of interest rates in general on the volatility of the Company's net interest income;
- o fluctuations in the value of the Company's investment securities;
- o the Company's ability to ultimately collect on any downgraded long-standing loan relationships;
- o the Company's ability to adapt successfully to technological changes to compete effectively in the marketplace;
- o credit risks and risks from concentrations (by geographic area and by industry) within the Company's loan portfolio and individual large loans;
- o volatility of rate sensitive deposits;

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- o operational risks, including data processing system failures or fraud;
- o asset/liability matching risks and liquidity risks;
- o the ability to successfully acquire low cost deposits or funding;
- o the ability to successfully execute strategies to increase noninterest income;
- o the ability to successfully grow non-commercial real estate loans;
- o the ability of the Company to fully realize expected cost savings and revenue generation opportunities in connection with the synergies of merging with the former Centrue Bank;
- o the ability to adopt and implement new regulatory requirements as dictated by the SEC, FASB or other rule-making bodies which govern our industry;
- o changes in the general economic or industry conditions, nationally or in the communities in which the Company conducts business.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### INTEREST RATE SENSITIVITY MANAGEMENT

The Company performs a net interest income analysis as part of its asset/liability management practices. The net interest income analysis measures the change in net interest income in the event of hypothetical changes in interest rates. This analysis assesses the risk of changes in net interest income in the event of a sudden and sustained 100 to 200 basis point increase in market interest rates or a 100 to 200 basis point decrease in market rates. The interest rates scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements. The tables below present the Company's projected changes in net interest income for the various rate shock levels at March 31, 2007 and December 31, 2006, respectively:

Change in Net Interest Income Over One Year Horizon				
March 31, 2007			December 31, 2006	
Dollar Change	% Change		Dollar Change	% Change
(Dollars in Thousands)				
+200 bp	\$ 2,369	5.90%	\$ 2,215	5.49%
+100 bp	1,238	3.09	1,157	2.87
Base	-	-	-	-
-100 bp	(1,760)	(4.39)	(1,529)	(3.79)
-200 bp	(4,631)	(11.54)	(4,345)	(10.77)

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

As shown above, the Company's model at March 31, 2007, the effect of an immediate 200 basis point increase in interest rates would increase the Company's net interest income by \$2,369 or 5.90%. The effect of an immediate 200 basis point decrease in rates would decrease the Company's net interest income by \$4,631 or 11.54%.

Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest



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rates, loan prepayments, and deposit decay rates and should not be relied upon as indicative of actual results. Actual values may differ from those projections set forth above, should market conditions vary from the assumptions used in preparing the analysis. Further, the computations do not contemplate actions the Company may undertake in response to changes in interest rates.

### ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic filings with the Securities and Exchange Commission. It should be noted that in designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company has designed its disclosure controls and procedures to reach a level of reasonable assurance of achieving the desired control objectives and, based on the evaluation described above, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at reaching that level of reasonable assurance.

There was no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

In the normal course of business the Company may be involved in various legal proceedings from time to time. The Company does not believe it is currently involved in any claim or action the ultimate disposition of which would have a material adverse effect on the Company's financial statements.

### ITEM 1A. RISK FACTORS

The Company did not experience any material changes in the Risk Factors during the Company's most recently completed fiscal quarter. For specific information about the risks facing the Company refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about purchases of the Company's common stock by the Company during the quarter ended March 31, 2007.

TOTAL NUMBER OF

MAXIMUM

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PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS
01/01/07 - 01/31/07	2,128	19.60	2,128	365,872
02/01/07 - 02/28/07	--	--	--	365,872
03/01/07 - 03/31/07	--	--	--	365,872
Total (1)	2,128	\$ 19.60	2,128	365,872

(1) The Company repurchased 2,128 shares at an average price per share of \$19.60 of our common stock during the quarter ended March 31, 2007 pursuant to the Company's current repurchase program. The current repurchase program approved on November 12, 2006 authorized us to repurchase an additional 370,000 of the outstanding shares of our common stock. The expiration date of this program is May 13, 2008. Unless terminated earlier by resolution of our board of directors, the program will expire on the earlier of such expiration date or when we have repurchased all shares authorized for repurchase under the program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits:

3.2 Bylaws

10.1 Centrue Financial Corporation amended and restated 2003 Stock Option Plan (incorporated by reference from Schedule 14A filed in connection with the 2007 Annual Meeting of Stockholders).

10.2 Form of Incentive Stock Option Agreement

10.3 Form of Nonqualified Stock Option Agreement

31.1 Certification of Thomas A. Daiber, President and Principal Executive Officer, required by Rule 13a - 14(a).

31.2 Certification of Kurt R. Stevenson, Senior Executive Vice President and Principal Financial and Accounting Officer required by Rule 13a - 14(a).

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32.1(1) Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company's President and Principal Executive Officer.

32.2(1) Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company's Senior Executive Vice President and Principal Financial and Accounting Officer.

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(1) This certification is not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRUE FINANCIAL CORPORATION

Date: May 14, 2007

By: /s/ Thomas A. Daiber

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Thomas A. Daiber  
President and  
Principal Executive Officer

Date: May 14, 2007

By: /s/ Kurt R. Stevenson

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Kurt R. Stevenson  
Senior Executive Vice President and  
Principal Financial and  
Accounting Officer

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